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SUBJECT: CHINA ANNOUNCES LIGHT INDUSTRY SUPPORT PLAN

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¶1. (SBU) SUMMARY: China's State Council announced on February 19 a light industry support plan, the seventh of ten plans to help the country's key industries. Like the other plans, the light industry support plan seeks to promote domestic consumption and encourage industry consolidation. The plan also aims to expand a program that subsidizes farmers' purchase of home appliances in a bid to boost consumption in rural areas and help the industry offset a decline in exports. A Chinese media report raises concerns about possible protectionist measures. A contact at China's largest white goods manufacturer said the company is well-positioned to take advantage of the program. End Summary.

¶2. (U) The State Council approved a new support plan for Chinese light industry on February 19 - the seventh of ten plans for key industries. (See reftels for reporting on autos, steel, textiles, machinery, shipbuilding and IT/electronics. As with the other industrial revitalization plans, the announcement listed only very broad, vague measures: 1) expand consumption in the cities and rural areas, increase domestic supply of quality products, improve services (such as logistics and legal services) to benefit foreign trade, and maintain export market share; 2) promote domestic equipment and key technology production, establish an industry exit mechanism, promote energy saving and environmental protection, and speed up technology improvement in the paper, home appliance, and plastic industries; 3) strengthen food safety regulation, improve the food processing industry, raise market-entry criteria, strengthen the recall and license revocation system, and increase penalties for making and selling counterfeit and low-quality products; 4) promote proprietary brands, support mergers and acquisitions by strong brands, and encourage industry consolidation; 5) strengthen industrial policy guidance; and 6) improve the quality of corporate management and products in the light industry.

¶3. (SBU) According to the announcement, a key aspect of the plan is to expand the "Appliances to the Countryside" program, which offers farmers 13 percent subsidies to buy TVs, refrigerators, washing machines, mobile phones, microwave ovens and induction cookers. Since its trial launch in December 2007, the program has produced obvious results, having sold over 3.5 million units of subsidized products to farmers by the end of October 2008. Compared with 2007, sales of home appliances increased in 2008 by 40 percent year-on-year. The campaign aims to sell 480 million units of appliances to farmers and boost domestic consumption by RMB920 billion in four years.
¶4. (U) Five provinces (Anhui, Hubei, Jiangxi, Sichuan and Zhejiang) and the cities of Beijing, Tianjin, Shanghai announced March 5 the list of companies that are eligible to sell air conditioners,

computers and gas water heaters through the "Appliances to the Countryside" program. The list of eligible companies includes the following Chinese firms and foreign companies: Gree, Midea, Haier, Galanz, LG and Panasonic for air conditioners; Lenovo, Tongfang PC, TCL, Founder, Haier, Dell, Acer and HP for computers; and Midea, Rongseng, Haier, Royalster, Macra, and Chiffo for gas water heaters.

Media Report Suggests Worrisome Details

¶5. (U) The State Council is expected to announce details of this and other industry support plans later this month. However, the well-respected Chinese financial newspaper Shanghai Security news, quoting "an authoritative source," said the plan would reduce the consumption tax on alcohol, cosmetics, expensive jewelry, and high-end watches; eliminate the personal income tax for lower-income Chinese; raise the VAT rebate on 631 export-orientated products, including home appliances, furniture, leather, and hardware products. More worrisome, the article also stated that China will raise tariffs on high-end consumer products and "encourage" the purchase of Chinese-made products for major national projects and government procurement.

¶6. (SBU) In a February 17 meeting with EconOff, Chinese Academy of Social Sciences (CASS) Institute of Industrial Economics Researcher Lu Tie downplayed concerns about protectionist measures, arguing that the plan included "no obvious signs of trade protectionism." He said protectionist measures were unnecessary because China's light industry products were highly competitive in international markets. However, Lu said China would raise tariffs on luxury consumer goods, noting the tariff rate would still be lower than China's WTO bound rates.

Chinese Manufacturer Haier the Big Winner

¶7. (SBU) One of the big winners of the light industry support plan is China's largest white goods manufacturer, Haier. Li Pan, General Manager of Haier's Overseas Administrative Department, told EconOff February 26 that the company had USD70.50 billion of sales in 2008, an 8.9 percent increase over 2007. The company, based in the coastal city of Qingdao in Shandong Province, has been hit by slowing exports since October 2008 but still predicts "high single-digit growth" in 2009, according to Li. One reason for the company's relatively optimistic prediction is the above-mentioned "Appliances to the Countryside" program, which applies to many of Haier's best-selling products. Li said that, although all appliance makers could take advantage of the program, Haier was in the best position to benefit. He credited the company's focus on innovation, arguing that Haier had researched rural customers and designed products to meet their demands. He claimed that Haier was not involved in the formulation of the industry support plan.

¶8. (SBU) However, an executive at Haier told EconOff in a separate meeting that the "Appliances to the Countryside" program was "basically a Haier program." He said the program was successfully trialed in Shandong Province in 2008. During the first round, 43 percent of appliance sales were Haier products. In the last three years, Haier has established 7000 Haier brand shops in small towns throughout China. The Haier executive said this network of brand shops and prior experience with the "Appliances to the Countryside" program put the company in a prime position to benefit from the newly-expanded program. He suggested foreign companies could best benefit from the program by partnering with Chinese companies such as Haier and "piggy-backing" on their distribution network.

Comment

¶9. (SBU) The State Council's light industry support plan offers general principles and guidance but few details on measures to be implemented. The Shanghai Security News report raises concerns about possible protectionist measures. In particular, the possible tariff increase on high-end consumer goods and encouragement to "Buy China," if implemented, would appear inconsistent with the spirit of China's G20 pledge not to raise new protectionist barriers.

However, China has frequently used WTO-inconsistency as its standard for defining protectionism. As a non-participant in the WTO's Government Procurement Agreement, China is unlikely to violate any WTO rules in that area. Assuming China stays within its tariff bindings for luxury goods, its actions there may be WTO-consistent as well. Although foreign firms are eligible to sell their products through the "Appliances to the Countryside" program, the program sets upper limits on the price for appliances, functionally preventing any but the very lowest-price imports from competing. Regardless of the soon-to-be-announced details of the plan, the program will mainly benefit large Chinese enterprises such as Haier that are already well-positioned to sell to the Chinese domestic consumer and to take advantage of the government's support measures.